MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BFN 2054 – PORTFOLIO MANAGEMENT
(All sections/ Groups)

6 JUNE 2018
9:00 A.M. – 11:00 A.M.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of **2** pages with **5** questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

Please answer all the questions

Question 1: (20 marks)

i) If a Mutual fund loses an average of 15% for each of the first three years, what average annual return must it achieve over the next ten years in order to provide its owners a 20% annual return over the thirteen year period? (5 marks)

ii) Differentiate between i) financial asset and real asset ii) real property and real estate AND provide ONE example for each of them. (5 marks)

iii) Portfolio with RM250,000 in equity and RM10,000 in cash. The beta of the portfolio is 1.0. Explain how the beta of the portfolio can be reduced to 0.95. (10 marks)

Question 2: (20 marks)

As a fund manager of the investment bank, you are trying to establish a strategic asset allocation for two different clients, Mr. Ali and Mr. Atu. Mr. Ali has a risk tolerance factor of 8, while Mr. Atu has risk tolerance factor of 27. The characteristics for four portfolios are as follows:

Asset Mix				
Portfolio	Stock	Bond	Expected Return	Standard Deviation
1	5%	95%	8%	5%
2	25%	75%	9%	10%
3	70%	30%	10%	16%
4	90%	10%	11%	25%

i) Calculate the expected utility of each prospective portfolio for each of the clients.

(8 marks)

ii) Which portfolio represents the optimal strategic allocation for Mr. Ali? Which portfolio is optimal for Mr. Atu? Explain the difference in these two outcomes. (6 marks)

iii) For Mr. Ali, what level of risk tolerence would leave him indifferent between having portfolio 1 or portfolio 2? (6 marks)

Continued....

Question 3: (20 marks)

i) Who manages the portfolios at investment advisory firms and investment companies, and how are those managers compensated? (15 marks)

ii) How do you compute the net asset value (NAV) for investment companies? (5 marks)

Question 4: (20 marks)

Consider the following information for four portfolios, the risk free rate (RFR) = 0.07.

Portfolio	Return	Beta	Standard Deviation
A	0.15	1.0	0.05
B	0.20	1.5	0.10
C	0.10	0.6	0.03
D	0.17	1.1	0.06
Market	0.13	1.0	0.04

i) Compute the Treynor measure for each portfolio and the market portfolio. (5 marks)

ii) Compute the Sharpe measure for each portfolio and the market portfolio. (5 marks)

iii) Rank the portfolios using each measure, explaining the cause for any differences you find in the rankings. (5 marks)

Question 5: (20 marks)

ABC stock has an expected Return of Equity (ROE) of 12% per year, expected earnings per share of RM2, and expected dividends of RM1.5 per share. Its market capitalization rate is 10% per year.

i) What are its expected growth rate, its price, and its Price/Earnings (P/E) ratio? (10 marks)

ii) If the plowback rate were 0.4, what would be the expected dividend per share, the growth rate, the price, and the P/E ratio? (10 marks)

End of Page